



2005 Remittance Processing Benchmarking Study

*An assessment of remittance processing
industry operations and trends.*

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PREPARED BY
**Dove Consulting and
The Association for Work Process Improvement**

Executive Summary

2005 Remittance Processing Benchmarking Study

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This document serves as an introduction to the TAWPI/Dove Consulting “2005 Remittance Processing Benchmarking Study.” It provides the reader with an overview of the research that was conducted, the methodology utilized and the high-level results collected. The complete 160-page report includes benchmarking data from more than 100 remittance processing sites. The study reports on current and future trends in mail and remittance processing and examines the productivity and cost of processing payments through an analysis of various functions within remittance operations. The following Table of Contents is for the full document. This Executive Summary is taken from the first section of the full report.

To order the full report, use the order form attached to this Executive Summary, or you may obtain an order form at www.tawpi.org.

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The Association for Work Process Improvement
185 Devonshire Street, Suite M102, Boston, MA 02110
Phone: 617-426-1167, Fax: 617-521-8675
www.tawpi.org

Dove Consulting
75 Park Plaza, Boston, MA 02116
Phone: (617) 482-2100, Fax: 617-482-1470
www.doveconsulting.com

THE 2005 REMITTANCE PROCESSING BENCHMARKING STUDY

Dove Consulting Team

Edward Bachelder, Director of Research and Analytics

Joel Stanton, Manager

Brian Van Abel, Research Analyst

Danielle Park, Production

TAWPI Team

Melissa Comeau, Senior Vice President of Communications

Dana Gould, Vice President of Product Development

Frank Moran, President

Jenny Star, Education & Communications Coordinator

Study Sponsors

Advanced Financial Solutions

Jack Henry & Associates

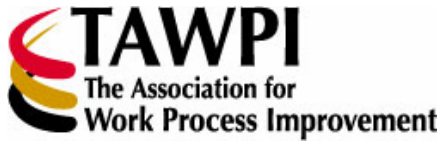
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The mission of The Association for Work Process Improvement (TAWPI) is to enhance the performance of organizations and to strengthen the value of professionals that employ emerging technologies in mail, remittance, document and forms processing.

TAWPI is an international, not-for-profit membership organization whose primary focus is on education. TAWPI is dedicated to helping end users sharpen their management skills, improve productivity and performance of their organizations, and maximize their value as professionals. The focus of TAWPI's educational products and services is the future – what new technologies are available, how they should be implemented and managed, and why they are important to the strategic direction of Fortune 1000 companies such as financial services, insurance, banking, government agencies and service bureaus, and utilities.

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The practice's Financial Services Group is a leader in developing retail payments, distribution, and customer strategies. The group has performed payment strategy work with seven of the Top 10 U.S. banks, credit unions, major payment networks and processors, and government entities.

Our client consulting work is supported by an ongoing commitment to industry research. Our primary research has addressed payment trends related to consumers, retailers, ATM deployers, card issuers, and remittance processors.

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Executive Summary

Introduction

The remittance processing industry is facing unparalleled change. The Federal Reserve has estimated that the total number of checks paid in the United States declined at 4.3% per year between 2000 and 2003, and analysts believe that the rate of decline is increasing. Over the past decade, debit and credit cards displaced paper checks for consumer purchases in stores and are being promoted as an alternative to paper checks for consumer bill payment and smaller value corporate purchases. The trend toward the electronification of payments and specifically new technologies which facilitate the truncation of paper checks early in the payments process are transforming the remittance processing landscape and directly impact how bills are received, paid and processed. Perhaps the most significant development is ARC check conversion, which allows billers to convert consumer checks into ACH debits at the lockbox. Since ARC was approved by NACHA in 2001, it has more than doubled in volume each year and may exceed 2.5 billion items this year. Additionally, Check 21-based remote deposit capture and image clearing are beginning to emerge as viable alternatives to the current paper-based systems and may profoundly transform the economics of the remittance processing industry over the next five years. For remittance processors the new technologies bring new opportunities but also add more complexity as customers, banks and billers adopt an ever-expanding array of payment instruments. Industry suppliers continue to find ways for ever faster and higher-quality remittance processing systems and pioneer ways to transform when, how and where work is performed.

To help its members learn about and adapt to these changes, The Association for Work Process Improvement (TAWPI) partnered with Dove Consulting to build on the Remittance Processing Benchmarking study that was conducted in 2001. The study was funded through the generous support of our sponsors. This research was conducted to provide remittance processing professionals and solutions providers information that is relevant to the current environment. Data were collected to provide corporate billers, banks and lockboxes with an opportunity to learn about how changes are affecting leading remittance processing operations and identify “Benchmarks and Best Practices” that may help them prioritize improvement efforts for their own operations.

The research effort entailed gathering responses from remittance processors across the highest-volume categories, specifically: Utilities, Telecommunications, Credit Card, Cable

Providers, Government Agencies, Banking, Financial Services, Third-Party Processors, and Insurance companies.

The primary focus of this study is the processing of paper-based payments in a lockbox environment. Although the survey did inquire about electronic payment volumes, those transactions are commonly handled by other areas of respondents' organizations. An important challenge facing highly specialized RP operations is that they need to focus on primarily paper processing and therefore do not generally benefit from the shift from check-based payments to electronic methods. However, lockbox operators are implementing ARC and benefiting from the conversion of checks into ACH debits. Others are examining using Check 21-enabled check image clearing technologies to truncate checks at the lockbox and anticipate saving transportation and physical handling expenses for their organizations and their customers, once image exchange reaches critical mass – which is anticipated to occur in the 2007-2008 timeframe.

Research Objectives

The purpose of this study is to gather information which can help remittance processors assess their performance relative to their peers and the overall industry as new technologies are implemented and processes are improved to provide efficient support for customers. Although many of the questions were drawn from the 2001 study, adjustments were made by Dove Consulting, TAWPI and the sponsors to shorten the survey from 220 questions to 159, and to make it more reflective of changes in the remittance processing environment such as ARC and Check 21.

Participant Profiles

This report summarizes the results from the survey responses from remittance processors who completed the Remittance Processing Survey, which was administered between June and August of this year. The study included a range of lower and higher-volume remittance processing operations. It may be useful to know that 54% of the participants processed more than one million payments per month.

Each of the 72 participants was assigned to a specific peer group. Non-Banks were assigned to one of five sub-groups to reflect the industry that they serve (i.e., Insurance) and should be considered to be retail lockbox operations. Due to differences in operating characteristics, all Banks were assigned to either the Wholesale or Retail/Wholesale segment, which included Banks that are in the retail lockbox category.

Study Participation by Peer Group

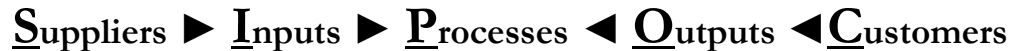
Peer Groups	Participants	Sites
Utilities	13	14
Insurance	6	11
Cable/Telco	6	12
Financial Services	8	16
Other*	8	10
Sub-Total Non-Banks/Retail	41	63
Retail/ Wholetail Banks	14	30
Wholesale Banks	17	25
Total	72	118

* Other includes Fundraisers, Third-party RP firms and State Government entities

Report Format

The report has been written to assist vendors and industry practitioners in understanding how the configuration and efficiency of their solutions and operations fit with industry norms and trends.

The results of the study are organized following the Six Sigma Quality SIPOC framework to reflect the flow of work and systems used by remittance processors to meet their customers' needs.



The most challenging aspect of this study is isolating differences in processes which represent best practices within an operating environment and workload. This new data reflects industry changes and will assist processors in improving their productivity, overall quality and cost effectiveness through the sharing of industry best practices within their peer group.

Results

Remittance processors have been making investments in new systems and the results are evident in the higher throughputs, lower error rates and better performance. Each of the following topics is presented in greater detail later in this report:

Suppliers

A series of questions were asked in the survey about the respondents' satisfaction with their current equipment and systems. The table below shows that overall respondents are satisfied with the equipment and software they use.

Overall Satisfaction with Equipment and Systems

Type	Price	Reliability	Vendor Support	Throughput	Other	Overall
Mail Sorting Equipment	3.2	4.0	3.9	4.1	3.0	3.64
High-Speed Extraction	3.2	4.2	4.2	4.2	3.0	3.76
Low-Speed Extraction	3.4	4.2	4.2	4.1	3.3	3.84
Transports Hardware	3.5	3.9	3.9	4.0	3.9	3.84
Read-and-Key Software	3.4	3.8	3.8	3.8	3.3	3.62
Image Software	3.5	3.9	3.8	4.0	3.7	3.78

Satisfaction was measured on a 5-point scale where 1= Very Dissatisfied and 5= Very Satisfied

Inputs

The next component of the research was to gather statistics on the workload and resources that are used by the remittance processors.

Incoming Mail Volume

On average, Retail/Wholesale banks reported the greatest volume of incoming monthly mail. While Non-Bank and Retail/Wholesale bank lockboxes received mostly standard return envelopes (83% and 87%, respectively), Wholesale bank lockboxes received 75% of their incoming volume via non-remittance envelopes/white mail, overnight, and other envelopes, and packages.

Mean Incoming Mail Volumes per Site by Peer Group

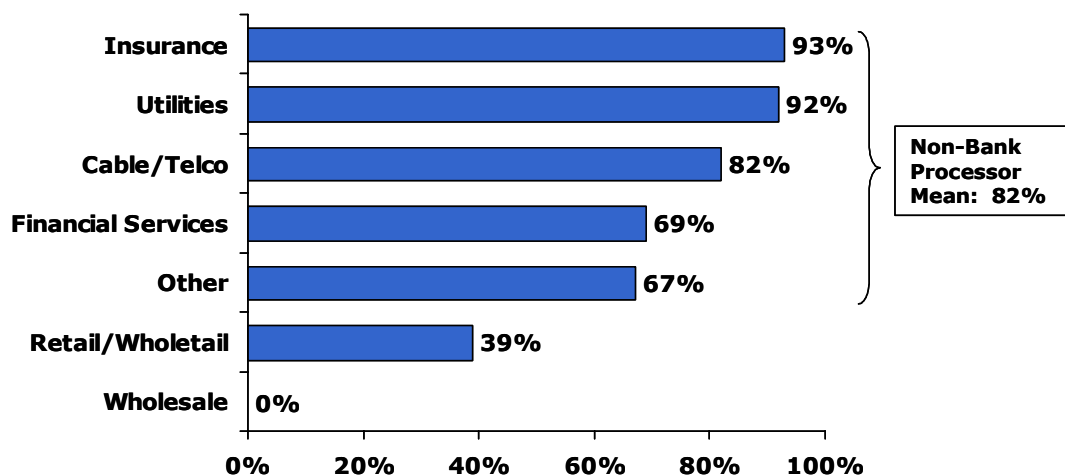
	Non-Bank	Retail/Wholesale	Wholesale
Standard Return Envelopes	1,360,355	5,062,385	202,962
Non-Remittance Envelopes/White Mail	179,403	728,377	524,796
Overnight Mail	17,911	34,807	15,034
Other Sources	73,254	8,965	69,714
Total Incoming Mail	1,630,922	5,834,534	812,506

Documentation Control and High Speed vs. Low-Speed Extraction

A key indicator of the complexity of remittance processors' operations is the percentage of documentation they control. Retail processors were highest, with some controlling 100%, while Wholesale processors may control none of the documentation and may just receive a check in an envelope. Retail/Wholesale processors reported that they control about 39% of their incoming remittance documentation.

Percentage of Remittance Documentation Controlled

Approximately for what percentage of your total remittance volume do you control the documentation?



Staffing and Paid Hours

Bank-operated remittance processing sites tended to have many more employees than Non-Banks. Relative to the 2001 study, participants in 2005 reported higher median monthly paid hours per site. The minimum paid hours in 2005 was from a small Non-Bank processor.

Monthly Operating Budget by Category

The participants reported that the majority of operating budgets were for wages and salary expenses. A detailed breakdown is provided in Chapter 4.

Process

The central focus of the SIPOC framework is to examine the processes used to perform the work. Key process elements in the survey included mail sorting and opening equipment, transports used for multi-pass item processing, and imaging software.

Mail Sorting

Across the whole respondent base, just over half of all mail is sorted by the post office and then fine-sorted in-house.

Mail Sorting Methods

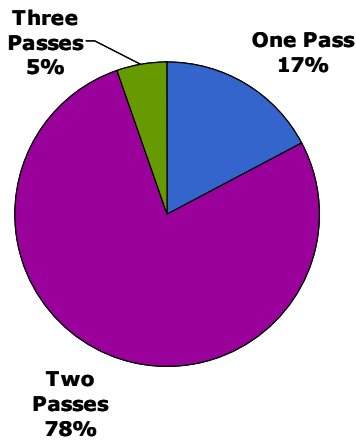
	Automated In-house	Manually & Automated In-house	Manually In-house	Sorted by Post Office	Sorted by P.O., then Fine Sorted In-house
Utilities	8%	17%	8%	0%	67%
Insurance	17%	0%	0%	50%	33%
Cable/Telco	0%	0%	0%	17%	83%
Financial Services	13%	25%	0%	25%	38%
Other	0%	17%	17%	0%	67%
Non-Bank Processors	8%	13%	5%	16%	58%
Retail/Wholesale Bank	7%	21%	7%	21%	43%
Wholesale Bank	6%	19%	13%	13%	50%
Total	7%	16%	7%	16%	53%

Number of Passes

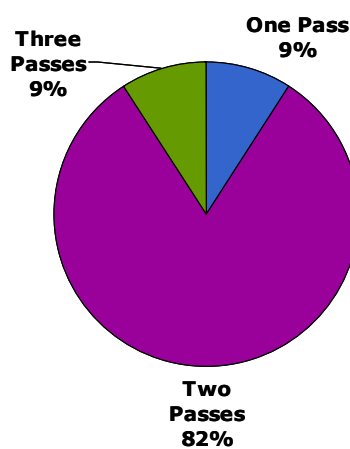
Most respondents reported performing two passes for items processed on their transports. For Retail Non-Bank payments, one pass (17%) is more common than three passes (5%), whereas for Wholesale payments one pass (9%) and three passes (9%) are equally common.

Retail and Wholesale Payments Passes

How many passes do you use for retail payments?



How many passes do you use for wholesale payments?



Workflow is described in a narrative format later in the report. However, more than 80% of the survey participants indicated that they use a two-pass system.

Character Recognition

41% of Non-Banks, 43% of Retail/Wholesale Banks and 63% of Wholesale Banks reported using a MICR database with their processing system during the data entry function.

Centralized Database

72% of Non-Banks respondents reported using a centralized database to look-up account information vs. 31% for both the Retail/Wholesale and Wholesale bank respondents.

Alternative Non-Paper Payments

Among survey participants, alternative non-paper based payments represent a small portion of their remittance processing volume. Often these payments are processed at a single location, which may not be at the remittance processing site. Survey respondents were able to report that their organizations do offer Web-based payment alternatives, with 56% of Non-Bank processors offering it through their own Web site and 26% through a third-party consolidator. Retail/Wholesale Banks were similar with 50% and 21%, respectively. In contrast, 67% of the Wholesale lockbox respondents reported that they did not offer Web-based alternative payment methods.

Web-based Payment Alternatives

Does your organization currently offer Web-based payment alternatives?

	Non-Bank	Retail/Wholesale Bank	Wholesale Bank
Yes, on our own Web site	56%	50%	13%
Yes, through a Third-Party Consolidator	26%	21%	20%
No	18%	29%	67%
Total	100%	100%	100%

The remittance processing industry has seen strong growth in Web-based payments. In 2001, less than half of the organizations offered a Web-based payment alternative. Currently, nearly 70% of organizations offer a Web-based payment solution. The greatest growth has come from the remittance processors offering payments through their own Web site. This category nearly doubled, from 29% to 46%, over the past four years.

ARC (ACH Check Conversion)

Although ARC is only used by a minority of the participants, many are considering investing in it. 25% of the overall respondent base reported converting consumer checks to ARC today; 43% of Retail/Wholesale Banks and 18% of Non-Bank processors. None of the Wholesale Banks reported converting consumer checks into ACH debits via the ARC process, which makes sense as their volume is primarily business checks, which are ineligible for conversion to ACH under NACHA rules.

Check to ACH Conversion

Do you convert consumer checks to ACH (ARC)?

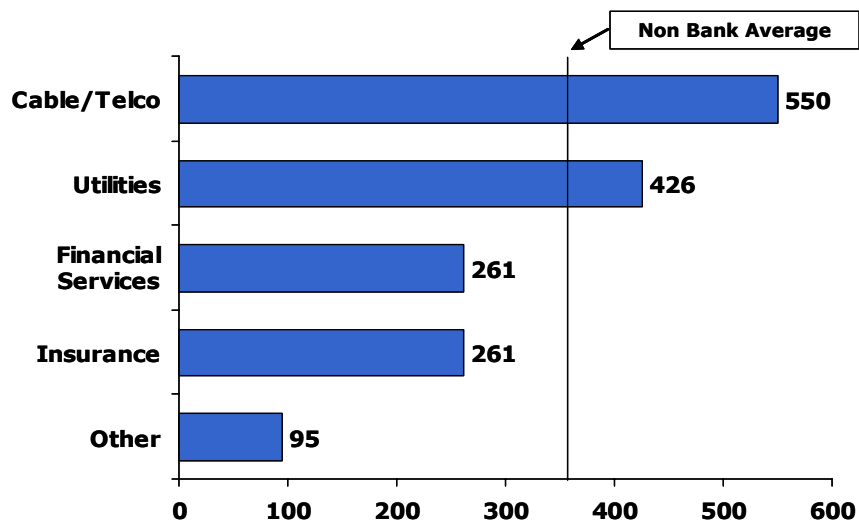
	Non-Bank	Retail/Wholesale Bank	Total
Yes	18%	43%	25%
No	82%	57%	75%

Outputs

In addressing the efficiency of remittance processing, it is important to acknowledge the complexity of the operating environment and workloads. A simple yardstick for measuring productivity is the number of items per paid hour, or throughput.

Among Non-Banks, Cable/Telcos achieved the highest mean throughput rate of 550 items per paid labor hour, followed by Utilities with 426. Financial Services and Insurance both averaged 261 items per paid labor hour, and 'Other' averaged 95 items per paid hour. The mean throughput rate for Non-Banks was 339 items per paid hour of labor.

Non-Bank Throughput by Peer Group



OCR/ICR Character Recognition Performance

With the advances in character recognition technology, processors are able to achieve higher read-rates that can improve the speed of processing payments. Non-Bank item processing kill rates have risen to 70%, up from 60% in TAWPI's 2001 study.

Check CAR/LAR Read Rates and Transaction Kill Rates

	Check CAR/LAR Read Rate	Transaction Kill Rate
Cable/Telco	90%	81%
Utilities	83%	77%
Financial Services	79%	58%
Insurance	76%	66%
Other	72%	59%
Overall	81%	70%

The CAR/LAR (Courtesy Amount Recognition/Legal Amount Recognition) median read rate for all respondents in the 2005 study was 80%, which is a slight improvement from the 2001 results. The transaction kill rate also showed an improvement, as the median in 2005 was 67% compared to 60% in 2001.

Customers

The last element of the SIPOC framework is to consider the customers served. All of the survey participants reported that they had at least one internal customer. As expected, the Non-Bank processors tended to provide remittance processing services to the fewest customers, with a median of seven, while Retail/Wholesale and Wholesale processors have the most customers, with medians of 92 and 563, respectively. The quartile cut-points shown below indicate that 25% of the Non-Bank participants reported volumes of less than 2 (the 1st Quartile cut point) and 25% reported volumes greater than 10 (the 3rd Quartile cut point). The remaining 50% of the Non-Bank participants are evenly divided above and below the median (50% cut point).

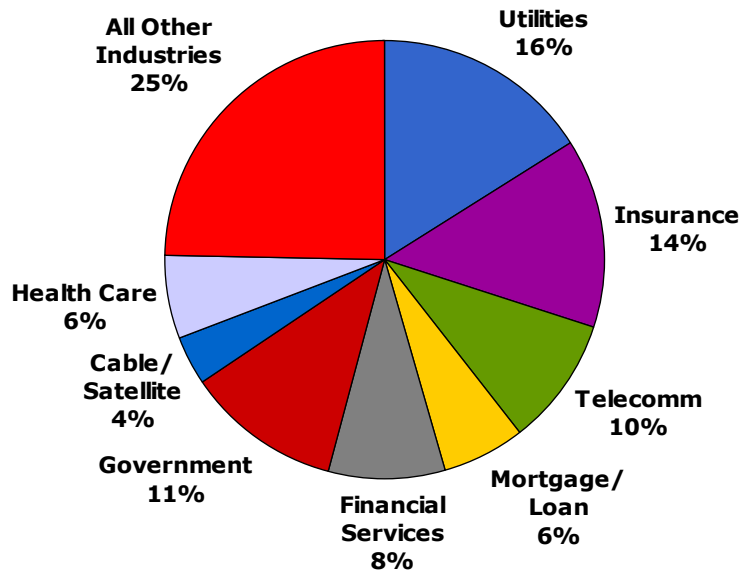
Number of Customers Served

If you have multiple customers, approximately how many do you serve in total?

	1 st Quartile (25% Cut Point)	Median (50% Cut Point)	3 rd Quartile (75% Cut Point)	Mean
Non-Bank Processor	2	7	10	15
Retail/Wholesale Bank	39	92	389	251
Wholesale Bank	27	563	1,659	830

Respondents' segmented volume was diverse, covering more than eight industries. The two largest segments were Utilities and Insurance, represented at 16% and 14%, respectively.

Percent of Remittance Payments Processed By Industry

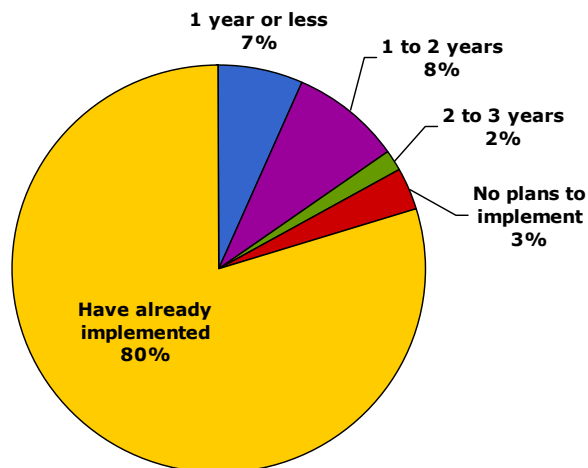


Future

Image technology has been widely adopted by study participants, with 80% reporting that they have already implemented an image archive/retrieval solution, and with 15% more anticipating adding it within the next two years.

Timeframe for Implementing Image Archives

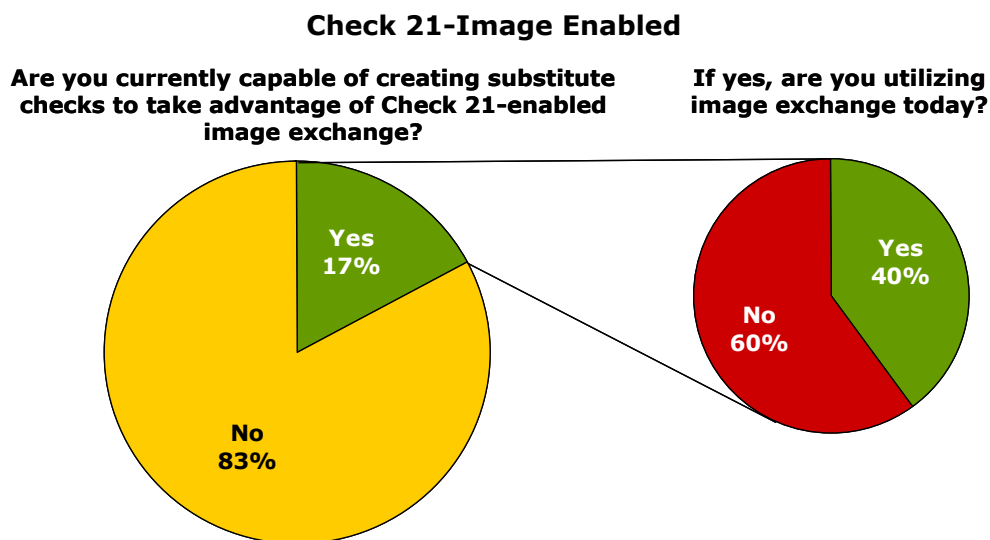
What timeframe does your organization plan to implement an image archive/retrieval solution?



Although the majority of participants utilize image processing, only 13% are currently able to capture transactions remotely, and more than half of the participants have no desire to capture transactions remotely.

Check 21-Enabled Image Exchange

Fewer than one in five respondents indicated that they are currently capable of creating substitute checks to take advantage of Check 21-enabled image exchange. Of those who are, 40% are utilizing that technology today.



Future Outlook

The future looks both challenging and bright for the participants. One of the opportunities for remittance processors is to become a key participant in the development of their organization's electronic payments strategy. As both consumers and businesses increasingly utilize multiple payment channels, there will be benefits for the remittance processing organizations that can coordinate and manage this important customer interaction. With the advent of late fees by many billers, remittance operations may be able to generate incremental revenue by offering electronic means to expedite payments that are within the mail remittance processing time window. Based on the participants' responses, many RP shops are still evaluating ARC and are likely to add that capability over the next two years.

Check 21 presents new opportunities to truncate checks and save transportation costs. But more importantly, it may enhance remittance processors' ability to manage workflow across departments and facilities, simplify exceptions processing and accelerate returns. None of this will be easy, but this report should provide data that remittance processors can use to evaluate their business case for new systems and technologies to support their customers.



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